

**CITY OF NORTH ROYALTON, OHIO**

**AUDIT REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2003**





**Auditor of State  
Betty Montgomery**

Honorable Mayor, Finance Director,  
and Members of City Council  
City of North Royalton  
North Royalton, Ohio

We have reviewed the Independent Auditor's Report of the City of North Royalton, Cuyahoga County, prepared by James G. Zupka, C.P.A., Inc., for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of North Royalton is responsible for compliance with these laws and regulations.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

August 31, 2004

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CITY OF NORTH ROYALTON, OHIO  
AUDIT REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2003

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**JAMES G. ZUPKA, C.P.A., INC.**

*Certified Public Accountants*

*5240 East 98<sup>th</sup> Street*

*Garfield Hts., Ohio 44125*

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(216) 475-6136

Ohio Society of Certified Public Accountants

Honorable Mayor, Finance Director,  
and Members of City Council  
City of North Royalton, Ohio

**INDEPENDENT ACCOUNTANT'S REPORT**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the City of North Royalton, Cuyahoga County, Ohio (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the City of North Royalton, Cuyahoga County, Ohio as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the general fund and Street Construction, Maintenance and Repair special revenue fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, changed its accounting for capital assets and reclassified unclaimed funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Government Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

James G. Zupka, CPA, Inc.  
Certified Public Accountants

May 27, 2004

**CITY OF NORTH ROYALTON, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
Unaudited**

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The discussion and analysis of the City of North Royalton's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

***FINANCIAL HIGHLIGHTS***

Key financial highlights for 2003 are as follows:

- Total assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$119,442,280 (net assets). Of this amount, \$9,367,308 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- Total net assets decreased by \$1,128,510 or a .9 percent decrease from 2002.
- Total assets of governmental activities exceeded liabilities at the close of the most recent fiscal year by \$105,354,110 (net assets); total assets for business-type activities exceeded liabilities by \$14,088,170.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,906,156, a decrease of \$898,926 in comparison with the prior year.
- The City's total debt increased by \$433,984 during the current year. The key factors to this increase were the bonding of the Industrial Park, Phase 2 notes in an amount equal to \$1,120,000. Additionally, the City paid \$1,421,772 in OWDA loan payments for the wastewater department.
- On a cash basis, the City's income tax collection increased 4.8 percent during 2003, which enabled the City to gain back the 3.3 percent decrease from the prior year. In the last three years, an average of 2.8 percent increase has been realized.

***USING THIS ANNUAL REPORT***

This discussion and analysis is intended to serve as an introduction to the City of North Royalton's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide statements; 2) fund financial statements; and 3) notes to the financial statements.



**CITY OF NORTH ROYALTON, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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*Government-Wide Statements*

The government-wide statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The statement of net assets and statement of activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in one column.

The statement of net assets presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include security of persons and property, public health services, leisure time activities, community development, basic utility services, transportation, as well as general government activities. The business-type activities include the wastewater department.

The government-wide financial statements include not only the financial statements of the City itself (known as the primary government), but also the financial statements of the Baseball Boosters and Soccer Club, which are component units of the City. Financial information for these component units is reported separately from the financial information presented for the primary government itself. Further information can be found on page 26 of this report.

The government-wide financial statements can be found starting on page 14 of this report.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**CITY OF NORTH ROYALTON, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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***Governmental Funds***

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 41 individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the General fund and the Street Construction, Maintenance, and Repair fund. Information for both of the major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 16 and 18 of this report.

***Proprietary Funds***

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its wastewater functions and is considered a major fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City maintained such a fund for its self-insurance of health related employee benefits. Because this predominately benefits governmental rather than business functions, it has been included within governmental activities in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 22-24 of this report.

**CITY OF NORTH ROYALTON, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used in proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 25 of this report.

***Notes to the Financial Statements***

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 26 through 61 of this report.

**Government-Wide Financial Analysis**

This is the City's first year for government-wide financial statements using the full accrual basis of accounting; therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

While this document contains information about how the funds are used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The Statement of Net Assets and the Statement of Activities are divided into the following categories:

- Assets
- Liabilities
- Net Assets (assets minus liabilities)
- Program Expenses and Revenues
- General Revenues
- Net Assets Beginning and End of Year

**The City as a Whole**

Recall that the Statement of Net Assets looks at the City as a whole. The following provides a summary of the City's net assets for 2003 compared to 2002:

**CITY OF NORTH ROYALTON, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Table 1 - Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
<b>Assets</b>						
Current and Other Assets	\$ 19,113,801	\$ 20,500,987	\$ 6,666,301	\$ 5,896,951	\$ 25,780,102	\$ 26,397,938
Capital Assets	99,800,380	98,104,620	29,752,833	31,998,772	129,553,213	130,103,392
<b>Total Assets</b>	<u>118,914,181</u>	<u>118,605,607</u>	<u>36,419,134</u>	<u>37,895,723</u>	<u>155,333,315</u>	<u>156,501,330</u>
<b>Liabilities</b>						
Long-Term Liabilities	7,170,184	5,382,744	22,127,960	23,481,416	29,298,144	28,864,160
Other Liabilities	6,389,887	6,931,925	203,004	134,455	6,592,891	7,066,380
<b>Total Liabilities</b>	<u>13,560,071</u>	<u>12,314,669</u>	<u>22,330,964</u>	<u>23,615,871</u>	<u>35,891,035</u>	<u>35,930,540</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Debt	95,850,359	94,954,112	7,880,741	8,704,907	103,731,100	103,659,019
Restricted	6,343,872	7,029,847	0	0	6,343,872	7,029,847
Unrestricted (Deficit)	3,159,879	4,306,979	6,207,429	5,574,945	9,367,308	9,881,924
<b>Total Net Assets</b>	<u>\$105,354,110</u>	<u>\$106,290,938</u>	<u>\$ 14,088,170</u>	<u>\$14,279,852</u>	<u>\$119,442,280</u>	<u>\$120,570,790</u>

As noted earlier, over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2003, the City's assets exceeded liabilities by \$119,442,280.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year end, capital assets represented 83 percent of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2003 were \$103,731,100. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2003, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The table below shows the changes in net assets for fiscal year 2003. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

**CITY OF NORTH ROYALTON, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Table 2 - Change in Net Assets**

	Governmental Activities 2003	Business-Type Activities 2003	Total 2003
<b>Revenues</b>			
Program Revenues:			
Charges for Services	\$ 2,961,635	\$ 5,782,931	\$ 8,744,566
Operating Grants and Contributions	1,207,026	0	1,207,026
Capital Grants and Contributions	2,408,306	0	2,408,306
General Revenues:			
Property Taxes	4,188,113	0	4,188,113
Income Taxes	7,511,309	0	7,511,309
Other Taxes	8,236	0	8,236
Grants and Enrollments	1,431,067	0	1,431,067
Investment Earnings	137,145	55,153	192,298
Other	19,042	916	19,958
<b>Total Revenues</b>	<b>19,871,879</b>	<b>5,839,000</b>	<b>25,710,879</b>
<b>Program Expenses</b>			
Security of Persons and Property	10,055,728	0	10,055,728
Public Health	375,060	0	375,060
Leisure Time Activities	470,092	0	470,092
Community Development	928,383	0	928,383
Basic Utility Services	2,287,064	0	2,287,064
Transportation	4,033,653	0	4,033,653
General Government	2,454,984	0	2,454,984
Interest and Fiscal Charges	202,065	0	202,065
Amortization of Bond Issuance Costs	1,353	0	1,353
Other	325	0	325
Wastewater	0	6,030,682	6,030,682
<b>Total Program Expenses</b>	<b>20,808,707</b>	<b>6,030,682</b>	<b>26,839,389</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ (936,828)</b>	<b>\$ (191,682)</b>	<b>\$ (1,128,510)</b>

**Governmental Activities**

Governmental activities decreased the City's net assets by \$936,828 in 2003. Several types of revenues fund the City's governmental activities, with the City income tax being the largest contributor. The income tax rate was 1.0 percent in 2003, the same as in the prior year. Both residents of the City and non-residents who work inside the City are subject to the income tax. For residents who work in a locality that has municipal income tax, the City provides a 25 percent credit up to 1.0 percent for taxes paid to the work community. City Council has the authority, by Ordinance, to vary the income tax credit to generate additional revenue for the City.

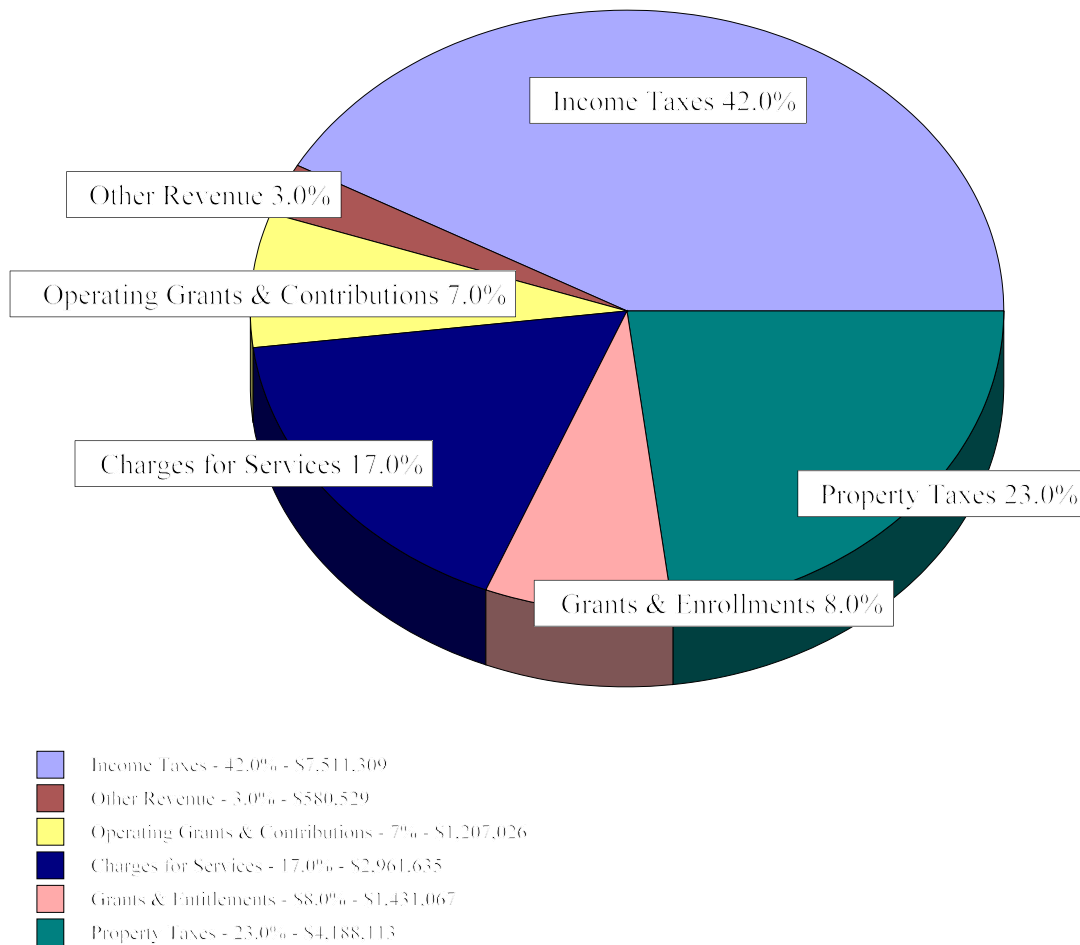
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Gross income tax collections, on a cash basis, in 2003 were \$7,795,204, an increase of \$358,299 over 2002. This brought collections back to 2001 levels after a decrease in 2002 due to economic conditions. Of the \$17,885,058 in total revenues, income tax accounts for 42 percent of that total. Property taxes in 2003 were \$4,188,113.

### Revenues by Source



General revenues include grants and entitlements, such as local government funds. With the combination of income tax, property tax, and intergovernmental funding, all expenses in the governmental activities are funded. The City monitors its source of revenues very closely for fluctuations, especially income tax.

**CITY OF NORTH ROYALTON, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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For the most part, increases in expenses closely parallel inflation and growth in the demand for services. The largest program function for the City relates to security of persons and property, which includes police, fire, EMS, and dispatching services. In 2003, 48 percent of program expenses for governmental activities were for security of persons and property. The next largest function was transportation, which accounted for 19 percent of the expenses in 2003.

**Business-Type Activities**

The business-type activities of the City, which include the City's wastewater activities, decreased the City's net assets by \$191,682.

**Financial Analysis of the Government's Funds**

As noted earlier, the City utilizes fund accounting to ensure and demonstrate compliance with finance-related requirements.

***Governmental Funds***

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year. These funds are accounted for using the modified accrual basis of accounting.

As of the end of 2003, the City's governmental funds reported combined ending fund balances of \$9,906,156. Of that amount, \$7,816,780 constitutes unreserved fund balances. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchases of the prior period.

All governmental funds had total revenues of \$17,885,062 and expenditures of \$19,974,574, leaving a deficit of \$2,089,512. Part of the shortfall was caused by general economic conditions. For instance, investment income substantially decreased in 2003, due to the lower interest rates.

***General Fund***

The general fund is the main operating fund of the City. At the end of 2003, total fund balance for the general fund was \$4,086,933 of which \$3,788,102 was undesignated for financial reporting purposes. As a measure of the general fund liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 39 percent of total general fund expenditures, while total fund balance represents 42 percent of that same amount. These numbers are an important representation of the City's solid financial performance and condition.

**CITY OF NORTH ROYALTON, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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***Budgeting Highlights - General Fund***

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2003, the City amended its budget on four occasions. All proposed budget changes are approved by the Finance Committee of the City Council and then presented to Council as a whole for their approval. The City does allow small interdepartmental budget changes that modify line items within departments within the same category and fund. The general fund supports many of our major activities such as the City's Police Department and Fire Department, as well as most legislative and executive activities. The general fund is monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

For the general fund, original budgeted revenues were \$9,180,815. The final budgeted revenue amount was \$8,314,956. Original general fund budgeted expenditures were \$11,324,997; amended budgeted expenditures were \$10,755,297. Actual general fund expenditures were \$9,857,758, approximately \$897,539 less than budgeted.

The differences between the general fund's original budget and the final amended budget were minor, except for the following changes:

- A decrease of \$750,000 in appropriations in the Rubbish Department. This was for the anticipated purchase of two new automated trash collections trucks and the necessary containers to implement the program. City Council had not finalized a decision on the trash collection issue; therefore, no purchases were made.
- An increase in the amount transferred to the Abbey Road fund for road reconstruction.
- An increase in expenditures for contractual services in the Engineering Department. This resulted due to increased usage of outside firms to review construction projects.

**Capital Asset and Debt Administration**

***Capital Assets***

At the end of fiscal 2003, the City had \$129,553,213 (net of accumulated depreciation) invested in land, buildings and improvements, improvements other than buildings, equipment, vehicles, and infrastructure. Of this total \$99,800,380 was reported in the governmental activities and \$29,752,833 was reported in business-type activities. The following table shows fiscal 2003 balances:



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**Table 3-Capital Assets at December 31 (Net of Depreciation, in Millions)**

	Governmental Activities		Business-Type Activities	
	2003	2002	2003	2002
Land	\$ 1,275,372	\$ 946,898	\$ 1,352,426	\$ 1,352,426
Buildings	4,887,993	4,766,651	7,731,271	7,978,694
Land and Land Improvements	0	0	11,636,066	12,162,337
Machinery and Equipment	1,623,388	1,574,665	2,971,703	3,707,739
Furniture and Fixtures	529,354	591,486	7,572	8,790
Vehicles	2,681,161	2,462,396	59,595	56,679
Infrastructure	88,803,112	87,762,525	5,994,200	6,732,107
<b>Total Capital Assets</b>	<b>\$ 99,800,380</b>	<b>\$ 98,104,621</b>	<b>\$ 29,752,833</b>	<b>\$ 31,998,772</b>

The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks, curbs, annexed roadways, right-of-ways, street lighting, and traffic signals. These items are immovable and of value only to the City; however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 89 percent of the City's total governmental capital assets in 2003.

The City's largest business-type capital assets category is infrastructure. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 21 percent of the City's total business-type capital assets for 2003.

***Debt Administration***

The City had the following long-term obligations outstanding at December 31, 2003 and 2002:

**Table 4 -Long-Term Obligations**

	Governmental Activities	
	2003	2002
General Obligation Bonds	\$ 2,086,939	\$ 2,291,300
Special Assessment Bonds	1,720,065	630,703
Notes Payable	700,000	0
Accrued Police and Fire Pension	137,189	139,241
Pumper Truck Lease	143,017	228,242
<b>Total Outstanding Debt</b>	<b>\$ 4,787,210</b>	<b>\$ 3,289,749</b>

General obligation bonds are composed of real estate acquisition, waterline projects, sewer projects, road improvements, and the refinanced police facility construction debt. The special assessment bonds consist of the taxpayer portion of water, sewer, and road improvements. OWDA and OPWC loans are composed of wastewater treatment and sludge compose facility debt.

Other obligations include compensated absences, capital lease obligations, and police and fire pension liability. Additional information concerning the City's debt can be found in the notes to the financial statements.

**CITY OF NORTH ROYALTON, OHIO  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Current Financial Related Activities**

The City is both financially strong and well managed, as evidenced by our upgraded bond rating of Aa3, the highest ever achieved by the City, awarded in 2003 by Moody's Investors Services. The increase is attributed to our stable operating performance, low debt burden, conservative budgeting, and professional leadership.

The City is looking forward to several exciting projects in the near future. Groundbreaking for the City's first satellite fire station is scheduled for spring 2004. The addition of this station will greatly reduce response time to residents of the City, thus improving their quality of life. The construction of this station will be paid without additional taxes to the residents, utilizing EMS billing revenues.

The City is also looking forward to the unveiling of a new Master Plan in June 2004. The Master Plan will provide the framework for the future of the City. Additionally, in 2003, the City hired its first ever Community Development Director. The creation of this position will facilitate the expansion of the tax base, especially in the newly completed Phase 2 of the Industrial Park.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Karen Fegan, Director of Finance, City of North Royalton, 13834 Ridge Road, North Royalton, Ohio 44113, by phone at 440-582-6234, or via the City website at [www.northroyalton.org](http://www.northroyalton.org).

**CITY OF NORTH ROYALTON, OHIO**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2003**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Baseball Boosters	Soccer Club
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 9,704,064	\$ 5,589,301	\$ 15,293,365	\$ 0	\$ 0
Cash and Cash Equivalents in Segregated Accounts	0	0	0	53,349	60,479
Accounts Receivable	171,534	1,050,383	1,221,917	0	0
Accrued Interest Receivable	8,280	2,485	10,765	0	0
Intergovernmental Receivable	1,017,342	0	1,017,342	0	0
Taxes Receivable	6,949,326	0	6,949,326	0	0
Special Assessments Receivable	945,382	0	945,382	0	0
Inventory	157,700	8,616	166,316	0	0
Prepaid Items	134,465	15,516	149,981	0	0
Unamortized Bond Issuance Costs	25,708	0	25,708	0	0
Nondepreciable Capital Assets	1,275,372	1,352,426	2,627,798	0	0
Depreciable Capital Assets, Net	<u>98,525,008</u>	<u>28,400,407</u>	<u>126,925,415</u>	<u>0</u>	<u>0</u>
<b>Total Assets</b>	<u>118,914,181</u>	<u>36,419,134</u>	<u>155,333,315</u>	<u>53,349</u>	<u>60,479</u>
<b>Liabilities</b>					
Accounts Payable	236,570	70,004	306,574	3,227	0
Contracts Payable	43,928	21,162	65,090	0	0
Accrued Wages and Benefits	420,531	39,888	460,419	0	0
Intergovernmental Payable	677,023	41,849	718,872	0	0
Accrued Interest Payable	16,718	0	16,718	0	0
Matured Compensated Absences Payable	61,443	30,101	91,544	0	0
Deferred Revenue	4,233,674	0	4,233,674	0	0
Notes Payable	700,000	0	700,000	0	0
Long-Term Liabilities:					
Due within One Year	1,288,206	1,574,864	2,863,070	0	0
Due in More Than One Year	<u>5,881,978</u>	<u>20,553,096</u>	<u>26,435,074</u>	<u>0</u>	<u>0</u>
<b>Total Liabilities</b>	<u>13,560,071</u>	<u>22,330,964</u>	<u>35,891,035</u>	<u>3,227</u>	<u>0</u>
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt	95,850,359	7,880,741	103,731,100	0	0
Restricted for:					
Other Purposes	671,298	0	671,298	0	0
Capital Projects	3,759,303	0	3,759,303	0	0
Debt Service	1,913,271	0	1,913,271	0	0
Unrestricted (Deficit)	<u>3,159,879</u>	<u>6,207,429</u>	<u>9,367,308</u>	<u>50,122</u>	<u>60,479</u>
<b>Total Net Assets</b>	<u>\$ 105,354,110</u>	<u>\$14,088,170</u>	<u>\$ 119,442,280</u>	<u>\$ 50,122</u>	<u>\$ 60,479</u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON, OHIO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units	
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	Baseball Boosters	Soccer Club
<b>Primary Government</b>									
<b>Governmental Activities:</b>									
Security of Persons and Property	\$ 10,055,728	\$ 830,564	\$ 72,056	\$ 0	\$ (9,153,108)	\$ 0	\$ (9,153,108)	\$ 0	\$ 0
Public Health and Welfare	375,060	32,235	0	0	(342,825)	0	(342,825)	0	0
Leisure Time Activities	470,092	153,968	0	0	(316,124)	0	(316,124)	0	0
Community Environment	928,383	764,008	0	0	(164,375)	0	(164,375)	0	0
Basic Utilities	2,287,064	289,591	3,242	23,645	(1,970,586)	0	(1,970,586)	0	0
Transportation	4,033,653	36,820	1,131,728	2,384,661	(480,444)	0	(480,444)	0	0
General Government	2,454,984	854,449	0	0	(1,600,535)	0	(1,600,535)	0	0
Interest and Fiscal Charges	203,743	0	0	0	(203,743)	0	(203,743)	0	0
<b>Total Governmental Activities</b>	<b>20,808,707</b>	<b>2,961,635</b>	<b>1,207,026</b>	<b>2,408,306</b>	<b>(14,231,740)</b>	<b>0</b>	<b>(14,231,740)</b>	<b>0</b>	<b>0</b>
<b>Business-Type Activities:</b>									
Wastewater	6,030,682	5,782,931	0	0	0	(247,751)	(247,751)	0	0
<b>Total Business-Type Activities</b>	<b>6,030,682</b>	<b>5,782,931</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(247,751)</b>	<b>(247,751)</b>	<b>0</b>	<b>0</b>
<b>Total Primary Government</b>	<b>\$ 26,839,389</b>	<b>\$ 8,744,566</b>	<b>\$ 1,207,026</b>	<b>\$ 2,408,306</b>	<b>(14,231,740)</b>	<b>(247,751)</b>	<b>(14,479,491)</b>	<b>0</b>	<b>0</b>
<b>Component Units</b>									
Baseball Boosters	\$ 146,451	\$ 141,651	\$ 0	\$ 0	0	0	0	(4,800)	0
Soccer Club	41,977	67,847	0	0	0	0	0	0	25,870
<b>Total Component Units</b>	<b>\$ 188,428</b>	<b>\$ 209,498</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(4,800)</b>	<b>25,870</b>
<b>General Revenues:</b>									
Property Taxes Levied for:									
General Purposes					895,231	0	895,231	0	0
Special Revenue					2,971,971	0	2,971,971	0	0
Debt Service					320,911	0	320,911	0	0
Income Taxes Levied for:									
General Purposes					6,314,062	0	6,314,062	0	0
Special Revenue					1,197,247	0	1,197,247	0	0
Other Taxes					8,236	0	8,236	0	0
Grants and Entitlements not Restricted to Specific Programs					1,431,067	0	1,431,067	0	0
Gain or Loss on Sale of Capital Asset					19,042	916	19,958	0	0
Investment Earnings					137,145	55,153	192,298	0	0
<b>Total General Revenues</b>					<b>13,294,912</b>	<b>56,069</b>	<b>13,350,981</b>	<b>0</b>	<b>0</b>
Change in Net Assets					(936,828)	(191,682)	(1,128,510)	(4,800)	25,870
Net Assets, Beginning of Year, as Restated					106,290,938	14,279,852	120,570,790	58,149	34,609
<b>Net Assets End of Year</b>					<b>\$105,354,110</b>	<b>\$ 14,088,170</b>	<b>\$119,442,280</b>	<b>\$ 53,349</b>	<b>\$ 60,479</b>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON, OHIO**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2003**

	<u>General</u>	<u>Street Construction, Maintenance, and Repair</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>				
Equity in Pooled Cash and Cash Equivalents	\$ 3,448,783	\$ 751,677	\$ 5,503,604	\$ 9,704,064
Receivables:				
Taxes	3,051,678	293,635	3,604,013	6,949,326
Accounts	23,983	0	147,551	171,534
Accrued Interest	7,222	0	1,058	8,280
Special Assessments	0	0	945,382	945,382
Due from Governments	326,226	407,343	283,773	1,017,342
Inventory	13,354	144,346	0	157,700
Prepaid Items	<u>112,126</u>	<u>15,116</u>	<u>7,223</u>	<u>134,465</u>
<b>Total Assets</b>	<b><u>\$ 6,983,372</u></b>	<b><u>\$1,612,117</u></b>	<b><u>\$ 10,492,604</u></b>	<b><u>\$19,088,093</u></b>
<b><u>Liabilities</u></b>				
Accounts Payable	\$ 120,996	\$ 49,593	\$ 65,981	\$ 236,570
Contracts Payable	0	0	43,928	43,928
Accrued Wages and Benefits	305,634	51,544	63,353	420,531
Due to Governments	263,790	42,447	56,343	362,580
Deferred Revenue	2,206,019	424,969	4,725,897	7,356,885
Notes Payable	0	700,000	0	700,000
Matured Compensated Absences Payable	<u>0</u>	<u>61,443</u>	<u>0</u>	<u>61,443</u>
<b>Total Liabilities</b>	<b><u>2,896,439</u></b>	<b><u>1,329,996</u></b>	<b><u>4,955,502</u></b>	<b><u>9,181,937</u></b>
<b><u>Fund Balances</u></b>				
Reserved for Inventory	13,354	144,346	0	157,700
Reserved for Prepaid Items	112,126	15,116	7,223	134,465
Reserved for Encumbrances	170,663	136,933	1,481,932	1,789,528
Undesignated (Deficits) Reported in:				
General Fund	3,790,790	0	0	3,790,790
Special Revenue Funds	0	(14,274)	782,391	768,117
Debt Service Funds	0	0	940,129	940,129
Capital Projects Funds	<u>0</u>	<u>0</u>	<u>2,325,427</u>	<u>2,325,427</u>
<b>Total Fund Balances</b>	<b><u>4,086,933</u></b>	<b><u>282,121</u></b>	<b><u>5,537,102</u></b>	<b><u>9,906,156</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 6,983,372</u></b>	<b><u>\$1,612,117</u></b>	<b><u>\$10,492,604</u></b>	<b><u>\$19,088,093</u></b>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON, OHIO**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO**  
**NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
**DECEMBER 31, 2003**

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**Total Governmental Fund Balances** \$ 9,906,156

*Amounts reported for governmental activities in the statement of net assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 99,800,380

Other long-term assets are not available to pay for current-period expenditures and therefore are not deferred in the funds:

Property Taxes	\$ 268,691	
Grants and Entitlements	657,303	
Income Tax	1,251,835	
Special Assessments	<u>945,382</u>	
Total		3,123,211

Bond issuance costs will be amortized over the life of the bonds on the statement of net assets. 25,708

Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds. (314,443)

Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(2,086,939)	
Special Assessments	(1,720,065)	
Police and Fire Pension Liability	(137,189)	
Capital Lease Obligations	(143,017)	
Compensated Absences	(3,082,974)	
Accrued Interest Payable	<u>(16,718)</u>	
Total		<u>(7,186,902)</u>

**Net Assets of Governmental Activities** \$105,354,110

**CITY OF NORTH ROYALTON, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>General</u>	<u>Street Construction, Maintenance, and Repair</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Local Taxes - Income Tax	\$ 6,365,899	\$ 898,452	\$ 301,914	\$ 7,566,265
Local Taxes - Property Tax	872,241	0	3,216,727	4,088,968
Other Taxes	7,756	0	0	7,756
Intergovernmental Revenue	1,083,267	836,548	1,084,076	3,003,891
Special Assessments	0	0	118,090	118,090
Charges for Services	327,051	13,312	1,163,857	1,504,220
Fines, Licenses, and Permits	936,222	0	454,841	1,391,063
Interest Income	110,467	0	26,640	137,107
Miscellaneous	58,302	7,500	1,900	67,702
<b>Total Revenues</b>	<u>9,761,205</u>	<u>1,755,812</u>	<u>6,368,045</u>	<u>17,885,062</u>
<b>Expenditures</b>				
Security of Persons and Property	4,190,902	0	4,659,528	8,850,430
Public Health and Welfare	189,522	0	173,567	363,089
Leisure Time Activities	417,373	0	0	417,373
Community Environment	840,572	0	0	840,572
Basic Utilities	1,477,925	0	96,877	1,574,802
Transportation	0	2,422,107	205,217	2,627,324
General Government	2,336,410	0	6,041	2,342,451
Capital Outlay	142,907	61,473	2,208,170	2,412,550
Debt Service:				
Principal Retirement	41,262	0	279,225	320,487
Interest and Fiscal Charges	4,494	2,867	218,135	225,496
<b>Total Expenditures</b>	<u>9,641,367</u>	<u>2,486,447</u>	<u>7,846,760</u>	<u>19,974,574</u>
Excess of Revenues Over (Under) Expenditures	<u>119,838</u>	<u>(730,635)</u>	<u>(1,478,715)</u>	<u>(2,089,512)</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Fixed Assets	10,543	8,499	0	19,042
Proceeds from Sale of Notes	0	0	1,120,000	1,120,000
Transfers In	191,544	214,997	1,043,000	1,449,541
Transfers Out	<u>(926,000)</u>	<u>0</u>	<u>(471,997)</u>	<u>(1,397,997)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(723,913)</u>	<u>223,496</u>	<u>1,691,003</u>	<u>1,190,586</u>
Net Change in Fund Balances	(604,075)	(507,139)	212,288	(898,926)
Fund Balances at Beginning of Year, as Restated	<u>4,691,008</u>	<u>789,260</u>	<u>5,324,814</u>	<u>10,805,082</u>
<b>Fund Balances at End of Year</b>	<u>\$4,086,933</u>	<u>\$ 282,121</u>	<u>\$ 5,537,102</u>	<u>\$ 9,906,156</u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON, OHIO**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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**Net Change in Fund Balances - Total Governmental Funds** \$ (898,926)

*Amounts reported for governmental activities in the statement of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 1,695,760

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property Taxes	\$ 99,145	
Grants and Entitlements	(26,663)	
Income Tax	(54,956)	
Special Assessments	(41,992)	
Total	(24,466)	(24,466)

Proceeds from debt issues are an other financing source in the funds but a debt issue increases long-term liabilities in the statement of net assets. (1,120,000)

Repayment of bond principal, police and fire pension, and capital lease payments are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 322,539

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds an interest expenditure is reported when due. (3,630)

Bond issuance costs will be amortized over the life of the bonds on the statement of net assets 25,708

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(989,979)	
Pension Obligation	107,991	
Total	(881,988)	(881,988)

The internal service fund used by management to account for self-insurance provided to City employees is not reported in entity-wide statement of activities. The net revenue (expense) of the internal service fund is allocated among the government activities. (51,825)

**Change in Net Assets of Governmental Activities** \$ (936,828)



**CITY OF NORTH ROYALTON, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL -**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Local Taxes - Income	\$ 5,946,981	\$ 5,762,000	\$ 6,411,017	\$ 649,017
Local Taxes - Property	877,699	800,000	872,241	72,241
Other Taxes	7,000	7,000	7,756	756
Intergovernmental	1,011,747	788,500	1,114,142	325,642
Charges for Services	264,660	197,456	303,068	105,612
Fines, Licenses, and Permits	893,231	609,000	967,036	358,036
Interest Income	110,363	150,000	119,482	(30,518)
Miscellaneous	69,134	1,000	58,302	57,302
<b>Total Revenues</b>	<u>9,180,815</u>	<u>8,314,956</u>	<u>9,853,044</u>	<u>1,538,088</u>
<b><u>Expenditures</u></b>				
Current:				
Security of Persons and Property	4,904,935	4,369,945	4,174,886	195,059
Public Health and Welfare	220,045	196,574	187,409	9,165
Leisure Time Activities	486,722	459,713	423,973	35,740
Community Environment	971,345	873,723	829,790	43,933
Basic Utilities	1,686,734	1,516,748	1,435,975	80,773
General Government	2,701,378	2,785,931	2,487,113	298,818
Capital Outlay	165,583	388,591	158,856	229,735
Debt Service:				
Principal Retirement	182,959	159,672	155,262	4,410
Interest and Fiscal Charges	5,296	4,400	4,494	(94)
<b>Total Expenditures</b>	<u>11,324,997</u>	<u>10,755,297</u>	<u>9,857,758</u>	<u>897,539</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,144,182)</u>	<u>(2,440,341)</u>	<u>(4,714)</u>	<u>2,435,627</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Sale of Fixed Assets	0	0	10,543	10,543
Transfers In	190,000	191,544	191,544	0
Transfers Out	(1,390,000)	(1,604,850)	(926,000)	678,850
<b>Total Other Financing Sources (Uses)</b>	<u>(1,200,000)</u>	<u>(1,413,306)</u>	<u>(723,913)</u>	<u>689,393</u>
Net Change in Fund Balance	<u>(3,344,182)</u>	<u>(3,853,647)</u>	<u>(728,627)</u>	<u>3,125,020</u>
Fund Balance at Beginning of Year, Restated	3,786,894	3,786,894	3,786,894	0
Prior Year Encumbrances Appropriated	<u>201,142</u>	<u>201,142</u>	<u>201,142</u>	<u>0</u>
<b>Fund Balance at End of Year</b>	<u>\$ 643,854</u>	<u>\$ 134,389</u>	<u>\$ 3,259,409</u>	<u>\$ 3,125,020</u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON, OHIO**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET (NON-GAAP BASIS) AND ACTUAL -**  
**STREET CONSTRUCTION, MAINTENANCE, AND REPAIR FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Local Taxes - Income Tax	\$ 855,542	\$ 820,211	\$ 903,605	\$ 83,394
Intergovernmental Revenue	771,353	739,498	814,686	75,188
Charges for Services	4,304	4,126	13,312	9,186
Miscellaneous	15,401	14,765	7,500	(7,265)
<b>Total Revenues</b>	<u>1,646,600</u>	<u>1,578,600</u>	<u>1,739,103</u>	<u>160,503</u>
<b><u>Expenditures</u></b>				
Current:				
Transportation	3,066,189	3,146,832	2,501,769	645,063
Capital Outlay	73,470	62,437	62,073	364
Debt Service:				
Principal Retirement	139,833	117,000	117,000	0
Interest and Fiscal Charges	3,427	3,000	2,867	133
<b>Total Expenditures</b>	<u>3,282,919</u>	<u>3,329,269</u>	<u>2,683,709</u>	<u>645,560</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,636,319)</u>	<u>(1,750,669)</u>	<u>(944,606)</u>	<u>806,063</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Proceeds of Sale of Notes	700,000	700,000	700,000	0
Sale of Fixed Assets	8,400	8,400	8,499	99
Transfers In	266,712	449,846	214,997	(234,849)
<b>Total Other Financing Sources (Uses)</b>	<u>975,112</u>	<u>1,158,246</u>	<u>923,496</u>	<u>(234,750)</u>
Net Change in Fund Balances	(661,207)	(592,423)	(21,110)	571,313
Fund Balances at Beginning of Year	537,694	537,694	537,694	0
Prior Year Encumbrances Appropriated	56,118	56,118	56,118	0
<b>Fund Balances at End of Year</b>	<u>\$ (67,395)</u>	<u>\$ 1,389</u>	<u>\$ 572,702</u>	<u>\$ 571,313</u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON, OHIO**  
**STATEMENT OF FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2003**

	<u>Business-Type Activities Wastewater</u>
<b><u>Assets</u></b>	
<b><u>Current Assets</u></b>	
Equity in Pooled Cash and Cash Equivalents	\$ 5,589,301
Receivables:	
Accounts	1,050,383
Accrued Interest	2,485
Inventory	8,616
Prepaid Items	<u>15,516</u>
Total Current Assets	<u>6,666,301</u>
<b><u>Non-Current Assets</u></b>	
Capital Assets, Net	<u>29,752,833</u>
Total Non-Current Assets	<u>29,752,833</u>
<b>Total Assets</b>	<b><u>\$36,419,134</u></b>
<b><u>Liabilities</u></b>	
<b><u>Current Liabilities</u></b>	
Accounts Payable	\$ 70,004
Contracts Payable	21,162
Accrued Wages and Benefits	39,888
Due to Governments	41,849
Matured Compensated Absences Payable	30,101
Compensated Absences	79,687
OWDA Bonds Payable	1,435,363
OPWC Notes Payable	<u>59,814</u>
Total Current Liabilities	<u>1,777,868</u>
<b><u>Non-Current Liabilities</u></b>	
Compensated Absences	176,180
OWDA Bonds Payable	19,599,330
OPWC Notes Payable	<u>777,586</u>
Total Non-Current Liabilities	<u>20,553,096</u>
<b>Total Liabilities</b>	<b><u>22,330,964</u></b>
<b><u>Net Assets</u></b>	
Invested in Capital Assets, Net of Related Debt	7,880,741
Unreserved (Deficit)	<u>6,207,429</u>
<b>Total Net Assets</b>	<b><u>\$ 14,088,170</u></b>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON, OHIO**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Business-</u>	<u>Governmental</u>
	<u>Type</u>	<u>Activities</u>
	<u>Activities</u>	<u>Internal</u>
	<u>Wastewater</u>	<u>Service Fund</u>
		<u>Hospitalization</u>
		<u>Self-Insurance</u>
<b><u>Operating Revenues</u></b>		
Charges for Services	\$ 4,218,524	\$ 0
Sewer Tap-In Fees	1,461,880	0
Fees, Licenses, and Permits	8,320	0
Miscellaneous	<u>94,207</u>	<u>0</u>
<b>Total Operating Revenues</b>	<u>5,782,931</u>	<u>0</u>
<b><u>Operating Expenses</u></b>		
Wages and Benefits	162	0
Personal Services	1,283,643	0
Contractual Services	797,144	319
Materials and Supplies	201,835	0
Depreciation	2,300,173	0
Other	<u>323,978</u>	<u>0</u>
<b>Total Operating Expenses</b>	<u>4,906,935</u>	<u>319</u>
Net Income (Loss) from Operations	<u>875,996</u>	<u>(319)</u>
<b><u>Non-Operating Revenues (Expenses)</u></b>		
Interest Income	55,153	38
Interest and Fiscal Charges	(1,123,746)	0
Gain on Disposal of Fixed Assets	916	0
Loss on Disposal of Fixed Assets	<u>0</u>	<u>0</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(1,067,677)</u>	<u>38</u>
Net Income (Loss) Before Transfers	(191,681)	(281)
Transfers	<u>0</u>	<u>(51,544)</u>
Change in Net Assets	(191,681)	(51,825)
Net Assets at Beginning of Year, as Restated	<u>14,279,852</u>	<u>51,825</u>
<b>Net Assets as End of Year</b>	<u>\$14,088,171</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON, OHIO**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2003**

	<u>Business- Type Activities</u>	<u>Governmental Activities</u>
	<u>Wastewater</u>	<u>Internal Service Fund</u>
<b><u>Cash from Operating Activities</u></b>		
Cash Received from Customers	\$ 6,013,647	\$ 0
Cash Payment for:		
Contractual and Other Services	(1,263,147)	(319)
Employee Services and Benefits	(1,199,565)	0
Other Operating Revenue	<u>102,527</u>	<u>0</u>
<b>Net Cash Provided (Used by) Operating Activities</b>	<u>3,653,462</u>	<u>(319)</u>
<b><u>Cash from Non-Capital Financing Activities</u></b>		
Transfers Out	<u>0</u>	<u>(51,544)</u>
<b>Net Cash (Used by) Non-Capital Financing Activities</b>	<u>0</u>	<u>(51,544)</u>
<b><u>Cash from Capital and Related Financing Activities</u></b>		
Acquisition of Fixed Assets	(57,288)	0
Gain on Disposal of Fixed Assets	3,970	0
Principal Payments	(1,421,772)	0
Interest and Fiscal Charges	<u>(1,123,746)</u>	<u>0</u>
<b>Net Cash (Used by) Capital and Related Financing Activities</b>	<u>(2,598,836)</u>	<u>0</u>
<b><u>Cash from Investing Activities</u></b>		
Interest on Investment	<u>59,855</u>	<u>380</u>
<b>Net Cash Provided by Investing Activities</b>	<u>59,855</u>	<u>380</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,114,481	(51,483)
Cash and Cash Equivalents at Beginning of Year	<u>4,474,820</u>	<u>51,483</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 5,589,301</u>	<u>\$ 0</u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used by) Operating Activities</u></b>		
Operating Income (Loss)	\$ 875,995	\$ (319)
Adjustments:		
Depreciation	2,300,173	0
Changes in Current Assets and Liabilities		
Changes in Assets		
Accounts Receivable	333,243	0
Inventory	(4,205)	0
Prepays	11,391	0
Changes in Liabilities		
Accounts Payable	52,786	0
Accrued Wages and Benefits	1,352	0
Compensated Absences	98,417	0
Due to Other Government	<u>(15,690)</u>	<u>0</u>
<b>Net Cash Provided by (Used by) Operating Activities</b>	<u>\$ 3,653,462</u>	<u>\$ (319)</u>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON, OHIO**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUNDS**  
**DECEMBER 31, 2003**

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**Assets**

Equity in Pooled Cash and Cash Equivalents	\$ 660,611
Cash and Cash Equivalents in Segregated Accounts	<u>4,706</u>
<b>Total Assets</b>	<b><u>\$ 665,317</u></b>

**Liabilities**

Accounts Payable	\$ 1,325
Undistributed Monies	98,255
Deposits Held and Due to Others	<u>565,737</u>
<b>Total Liabilities</b>	<b><u>\$ 665,317</u></b>

See accompanying notes to the basic financial statements.

**CITY OF NORTH ROYALTON, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

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NOTE 1: **REPORTING ENTITY**

**The City**

The City of North Royalton, Ohio (the “City”) is a charter municipal corporation established and operated under the laws of the State of Ohio. A charter was first adopted by the electorate on January 1, 1952. The current charter provides for a council-mayor form of government. Elected officials include seven council members and a mayor.

The City, in order to provide the necessary services to its citizens, is segmented into many different departments. Among these are the police, fire fighting, street maintenance, planning and zoning, emergency medical technicians, parks and recreation system, public improvements department, and general administrative staff to provide support to these service groups. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures. All are responsible to the citizens of North Royalton and are included as part of the primary government.

The City’s financial statements include all the organizations, activities, functions, and components units for which the City (primary government) is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statement (see note below for description) to emphasize that it is legally separate from the primary government.

**Discretely Presented Component Units**

The Baseball Boosters and Soccer Club serve all the citizens of the government and is governed by a board comprised of the government’s elected council. The rates for user charges and bond issuance authorizations are approved by the government’s council and the legal liability for the general obligation portion of the Boosters debt remains with the City. The City has chosen the discrete method of presentation of the Boosters because it provides services to the citizens of the City and surrounding areas as opposed to only the primary government. The discrete method of presentation requires that component unit data be shown in a column to the right of the totals of the primary government. Separate financial statements are not published for the Baseball Boosters or the Soccer Club.

Also, the City is associated with certain organizations which are identified as jointly governed organizations. These organizations are described in Note 11. These organizations are:

Southwest Council of Governments  
Parma Community General Hospital Association

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

**A. Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service funds are eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods and services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.



**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

A. **Basis of Presentation** (Continued)

***Fund Financial Statements*** During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. **Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

***Governmental Funds*** Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the Charter of the City of North Royalton and/or the general laws of Ohio.

Street Construction, Maintenance, and Repair Fund – This fund is required by the Ohio Revised Code to account for that portion of the state gasoline tax and motor vehicle registration fees for maintenance of state highways within the City.

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Fund Accounting** (Continued)

***Proprietary Funds*** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service.

**Enterprise Funds** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City's only major enterprise fund is the Wastewater fund. This fund is used to account for revenues and expenses relating to the operation and maintenance of the City's wastewater treatment plants and sludge composting facility; to account for revenues and expenses relating to the debt payments of the wastewater department, specifically the OWDA loans; and to account for revenues and expenses relating to the maintenance of sewer lines and major equipment repairs and replacements of the wastewater plants and sludge composting facility.

**Internal Service Funds** Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's only internal service fund was eliminated in 2003 due to a change to commercial insurance coverage.

***Fiduciary Funds*** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investments trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account primarily for deposits held for contractors and developers, court computer services, and unclaimed monies.

C. **Measurement Focus**

***Government-wide Financial Statements*** The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. **Measurement Focus** (Continued)

***Fund Financial Statements*** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Government fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

D. **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and the presentation of expenses versus expenditures.

***Revenues – Exchange and Nonexchange Transactions*** Revenue resulting from exchange transactions, of which the City receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year-end.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Basis of Accounting** (Continued)

***Revenues – Exchange and Nonexchange Transactions*** (Continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and entitlements, and rentals.

***Deferred Revenue*** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes, for which there is an enforceable legal claim as of December 31, 2003 but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**E. Pooled Cash and Cash Equivalents**

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

The City's portfolio was limited to nonparticipating interest-earning investment contracts and State Treasury Asset Reserve of Ohio (STAROhio). Nonparticipating investment contracts such as non-negotiable certificates of deposit and repurchase agreements are reported at cost.

The City also invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2003. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2003.

The City's policy is to hold investments until maturity, or until market values equal or exceed cost.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue has been properly credited to the respective funds in 2003.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented on the financial statements as "cash and cash equivalents in segregated accounts" and "cash and cash equivalents with fiscal and escrow agents" since they are not required to be deposited into the City's treasury.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

F. **Receivables**

Receivables at December 31, 2003 consist of taxes, amounts due from other governments, accounts (billings for user charged services), special assessments, and accrued interest or investments. All are deemed collectible in full.

G. **Materials and Supplies Inventory**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first in, first out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed. Inventories of the proprietary funds are expensed when used.

Inventory consists of expendable supplies held for consumption.

H. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2003 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

I. **Capital Assets**

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

I. **Capital Assets** (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000. The City's infrastructure consists of roads, water mains, storm sewers, culverts, traffic signals and bridges. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>	Business-Type Activities <u>Estimated Lives</u>
Buildings and Improvements	50 years	50 years
Land Improvements	20 years	20 years
Machinery and Equipment	10 years	10 years
Furniture and Fixtures	15 years	15 years
Vehicles	3-20 years	3-20 years
Infrastructure	20-40 years	20-40 years

J. **Interfund Balances**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "due to/from other funds." Interfund balance amounts are eliminated in the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances. As of December 31, 2003, there were no outstanding interfund loans or unpaid amounts for interfund services.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**K. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vested method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experiences of making termination payments.

**L. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the governmental fund financial statements when due.

**M. Fund Balance Reserves**

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances, inventories, prepaid items, and debt service.

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.



**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

N. **Net Assets** (Continued)

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. **Grants and Intergovernmental Revenues**

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Federal reimbursement-type grants are recorded as intergovernmental receivables and revenues in the period when all applicable eligibility requirements have been met and the resources are available.

P. **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for sewer services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

Q. **Contributions of Capital**

Contributions of capital in governmental and business-type activity basic financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

R. **Interfund Activity**

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditure/expenses to the funds that initially paid for them are not presented on the financial statements.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**S. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

**T. Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**U. Budgetary Data**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the major object level by department for all funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during 2003.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

U. **Budgetary Data** (Continued)

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

*Encumbrances* - Encumbrances outstanding at year end represent the estimated amount of expenditures that will ultimately result if unperformed contracts in process (for example, purchase orders and contracted services) are completed. Encumbrances outstanding at year end are reported as reservations of fund balances for subsequent year expenditures in the governmental funds.

*Lapsing of Appropriations* - At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY**

A. **Changes in Accounting Principles**

For 2003, the City has implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 41, *Budgetary Comparison Schedules - Perspective Differences*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**(CONTINUED)**

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NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY** (Continued)

A. **Changes in Accounting Principles** (Continued)

The government-wide financial statements split the City's programs between governmental and business-type activities. The beginning net assets amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2003 caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the MD&A, the classification of program revenues, and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosures. GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the City not being able to present budgetary comparisons for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The City restated the fund liability of compensated absences that had not matured during fiscal year 2002.

B. **Restatement of Fund Balances**

The implementation of these changes and the increase in capitalization threshold from \$500 to \$1,000 had the following effects on fund balance/equity of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**(CONTINUED)**

**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY (Continued)**

**B. Restatement of Fund Balances (Continued)**

	<u>General</u>	<u>Street Construction, Maintenance, and Repair</u>	<u>Nonmajor</u>	<u>Total Governmental</u>
Fund Balances, December 31, 2002	\$ 4,507,164	\$ 756,202	\$ 5,288,517	\$ 10,551,883
Adjustments:				
Compensated Absences Payable	200,612	33,058	36,297	269,967
Fund Reclassification *	<u>(16,768)</u>	<u>0</u>	<u>0</u>	<u>(16,768)</u>
Adjusted Fund Balances, December 31, 2002	<u>4,691,008</u>	<u>789,260</u>	<u>5,324,814</u>	10,805,082
GASB 34 Adjustments:				
Capital Assets				98,104,621
Internal Service Fund				51,825
Long-Term Liabilities				(5,805,178)
Accrued Interest Payable				(13,088)
Long-Term (Deferred) Assets				<u>3,147,676</u>
<b>Net Assets, December 31, 2002</b>				<b><u>\$106,290,938</u></b>

\* Unclaimed funds were reclassified from the general fund to an agency fund at December 31, 2002.

	<u>Business-Type Activities Wastewater</u>
Net Assets, December 31, 2002	\$ 3,532,071
Understatement of Pension Obligation Payable	(34,266)
Capitalization Level of Assets	<u>10,782,047</u>
Adjusted Net Assets, December 31, 2002	<b><u>\$ 14,279,852</u></b>

**NOTE 4: ACCOUNTABILITY AND COMPLIANCE**

**A. Fund Deficits**

Fund balances/retained earnings at December 31, 2003, included the following individual fund deficits:

<u>Special Revenue</u>	
EMS Levy	\$ 42,840
Fire Pension	20,580
 <u>Capital Projects</u>	
Issue II Abbey Road	17,336
Fire Capital Improvement	201,021
Ridge Road Sewer Improvement	1,944

The fund deficit in the EMS Levy fund and Fire Pension fund resulted from the recognition of expenditures on the modified accrual basis. The deficit does not exist under the cash basis of accounting.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

NOTE 4: **ACCOUNTABILITY AND COMPLIANCE** (Continued)

A. **Fund Deficits** (Continued)

The fund deficits in the Issue II Abbey Road fund, the Fire Capital Improvement fund, and the Ridge Road Sewer Improvement fund is due to timing differences where revenue was not received as of year end.

If anticipated revenue is not received, the City will transfer general funds to cover expenditures.

B. **Compliance**

In 2003, the following funds had expenditures in excess of appropriations contrary to Ohio Revised Code Section 5705.41:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
City Income Tax Fund	\$ 240,000	\$ 261,600	\$ (21,600)
Fire Pension Fund	427,000	468,327	(41,327)
Special Assessment Bond Retirement Fund	71,000	78,073	(7,073)
Issue II Abbey Road Fund	319,326	360,384	(41,058)

C. **Restatement of Budgetary Fund Balance**

The budgetary fund balance at the beginning of the year for the general fund was restated from \$3,803,662 to \$3,786,894 due to the reclassification of unclaimed funds from the general fund to an agency fund.

NOTE 5: **BUDGETARY BASIS OF ACCOUNTING**

While the City is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund and the major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The City's budget (budget basis) accounts for certain transactions on a basis which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and the GAAP basis are:

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**(CONTINUED)**

NOTE 5: **BUDGETARY BASIS OF ACCOUNTING** (Continued)

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and the major special revenue funds.

Net Change in Fund Balance General and Major Special Revenue Funds		
	General	Street Construction, Maintenance, and Repair
GAAP Basis	\$ (604,075)	\$ (507,139)
Net Adjustment for Revenue Accruals	(99,705)	468,294
Transfers In	191,544	214,997
Net Adjustment for Expenditure Accruals	898,858	(17,768)
Transfers Out	(926,000)	0
Encumbrances	(189,249)	(179,494)
Budget Basis	<u>\$ (728,627)</u>	<u>\$ (21,110)</u>

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS**

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents, and investments. In addition, investments are separately held by a number of individual funds. Statutes require the classification of funds held by the City into three categories:

Category 1 consists of “active” funds - those funds required to be kept in “cash” or “near cash” status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any Federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All Federal agency securities shall be direct issuances of Federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Interim deposits in eligible institutions applying for interim funds;
5. Bonds and other obligations of the State of Ohio;
6. No-load money market mutual funds consisting exclusively of obligations described in the first two sections and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasury Asset Reserve of Ohio (STAROhio).

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The



**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**(CONTINUED)**

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NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105 percent of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation, or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation, or other authority. Based upon criteria described in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, collateral held in single financial collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

**Deposits**

*Category 1* - Insured or collateralized with securities held by the City or by its agent in the City's name.

*Category 2* - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

*Category 3* - Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging institution or its trust department or agent but not in the City's name.

**Investments**

*Category 1* - Insured or registered, with securities held by the City or its agent in the City's name.

*Category 2* - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

*Category 3* - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

**A. Deposits**

At year end, the carrying amount of the City's deposits was \$6,540,606, including \$4,050 of cash on hand, and the bank balance was \$5,200,382. Of the bank balance, \$538,338 was fully insured by Federal depository insurance. The remainder was uninsured but collateralized by a collateral pool of assets held by an agent of the financial institution, but not in the City's name (Category 3).

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

NOTE 6: **CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

**B. Investments**

Investments (as defined by GASB 3) as of December 31, 2003 were as follows:

Repurchase Agreements (Category 3)	\$ 3,930,267	\$ 3,930,267
STAROhio (not categorized)	<u>5,601,637</u>	<u>5,601,637</u>
Total Investments	<u>\$ 9,531,904</u>	<u>\$ 9,531,904</u>

STAROhio is not categorized since those investments are not evidenced by securities that exist in physical or book entry form.

All of the investments are carried at cost except STAROhio, which is carried at fair value.

**C. Reconciliation of Cash, Cash Equivalents, and Investments**

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classification of cash and investments on the financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash & Cash Equivalents/ <u>Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 16,072,510	\$ 0
Investments:		
Repurchase Agreement	(3,930,267)	3,930,267
STAROhio	<u>(5,601,637)</u>	<u>5,601,637</u>
GASB Statement No. 3	<u>\$ 6,540,606</u>	<u>\$ 9,531,904</u>

Certificate of deposits with an original maturity of three months or less are treated as cash equivalents (as defined by GASB No. 9).

The City maintains a cash pool that is available for use by all funds and accounts except for the Mayor's Court Bond fund, the Baseball Boosters, and the Soccer Club, of \$118,534, which are maintained separately and were fully insured.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 7: **RECEIVABLES**

Receivables at December 31, 2003 consisted primarily of taxes, billings for utility services, special assessments, accrued interest on investments, and intergovernmental receivables arising from grants, entitlements and shared revenues.

No allowance for doubtful accounts have been recorded as uncollectible amounts are expected to be significant.

A. **Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values for real property are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. The latest reappraisal in Cuyahoga County was in 2000 (2001 collection year). Real property taxes are payable annually or semi-annually. If paid annually, the first payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 30, unless extended.

Taxes collected from tangible personal property (other than public utility property) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year.

Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single-county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

Public utility real and tangible personal property tax collected in one calendar year is levied in the preceding calendar year on assessed values determined as of December 31 of the year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 7: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of North Royalton. The County Auditor periodically remits to the City its portion of the taxes collected.

The assessed values of real and tangible personal property upon which the 2003 property tax receipts were based are as follows:

Real Estate:	
Residential/Agricultural	\$ 577,319,654
Commercial/Industrial	126,213,127
Tangible Personal Property:	
Real Estate	29,178,830
Public Utilities	<u>18,981,340</u>
<b>Total</b>	<b><u>\$ 751,692,951</u></b>

B. **Municipal Income Taxes**

The City levies a municipal income tax of one percent on substantially all earned income from employment, residency, or business activities within the City. The City allows a credit of 25 percent for income tax paid to another municipality. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly.

Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax collections are credited to the following funds: 12 percent to the Street Construction, Maintenance, and Repair special revenue fund, \$144,000 per year to the Police Facility Operations special revenue fund, 4 percent to the City Income Tax fund, and 2 percent to the Office on Aging special revenue fund. The remaining balance is credited to the general fund.

C. **Special Assessments**

Special assessments include annually assessed service assessments and assessments for debt obligations. Service type special assessments are levied against all property owners which benefit from the provided service while special assessments for debt obligations are levied against specific property owners who primarily benefitted from the project.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

NOTE 7: **RECEIVABLES** (Continued)

C. **Special Assessments** (Continued)

Special assessments are payable by the timetable and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

The City's service assessments include water mains, sewer maintenance, and sewer rehabilitation which are billed by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the fund financial statements.

Special assessments expected to be collected amount to \$945,382 in the special assessment retirement fund. At December 31, 2003, the amount of delinquent special assessments was \$268,691.

D. **Due from Other Governments**

A summary of Due from Other Governments follows:

	<u>Amount</u>
<u>General Fund</u>	
Homestead and Rollback	\$ 57,230
Local Government Tax	241,670
Liquor Permits	4,997
Estate Tax	21,559
Grants	770
Total General Fund	326,226
<u>Special Revenue Funds</u>	
Homestead and Rollback	181,687
Permissive Tax	14,325
Gasoline Tax	315,822
Auto Registration	124,549
Grants	34,294
Total Special Revenue Funds	670,677
<u>Debt Service Fund</u>	
Homestead and Rollback	20,439
Total Debt Service Fund	20,439
 <b>Total Due from Other Governments</b>	 <b>\$1,017,342</b>

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

**NOTE 8: INTERFUND TRANSFERS AND BALANCES**

As of December 31, 2003, interfund transfers were as follows:

<u>Fund</u>	<u>Transfer To</u>	<u>Transfer From</u>
General Fund	\$ 191,544	\$ 926,000
Street Construction, Maintenance, and Repair Fund	214,997	0
Nonmajor Governmental Funds	1,043,000	471,997
Internal Service Fund	0	51,544
<b>Total Interfund Transfers</b>	<b><u>\$1,449,541</u></b>	<b><u>\$1,449,541</u></b>

Interfund transfers were made to provide additional resources for current operations.

As of December 31, 2003, there were no interfund balances.

**NOTE 9: CAPITAL ASSETS**

A summary of changes in capital assets during 2003 follows:

**Governmental Activities**

	<u>Balance 12/31/02 as Restated</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/03</u>
<b><u>Governmental Activities</u></b>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 946,898	\$ 328,474	\$ 0	\$ 1,275,372
<i>Total Capital Assets Not Being Depreciated</i>	<u>946,898</u>	<u>328,474</u>	<u>0</u>	<u>1,275,372</u>
<i>Capital Assets Being Depreciated</i>				
Buildings and Improvements	6,273,839	239,496	0	6,513,335
Machinery and Equipment	2,430,596	148,287	(28,622)	2,550,261
Furniture and Fixtures	834,377	1,858	0	836,235
Vehicles	4,287,490	647,411	(389,553)	4,545,348
Infrastructure:				
Pavements/Sidewalks	59,965,881	3,005,225	0	62,971,106
Water Mains	24,898,984	180,795	0	25,079,779
Traffic Signals	2,546,351	0	0	2,546,351
Storm Sewers	25,382,067	182,291	0	25,564,358
Culverts/Bridges	1,444,356	7,350	0	1,451,706
<i>Total Capital Assets Being Depreciated</i>	<u>128,063,941</u>	<u>4,412,713</u>	<u>(418,175)</u>	<u>132,058,479</u>
Less Accumulated Depreciation:				
Buildings	(1,507,188)	(118,154)	0	(1,625,342)
Machinery and Equipment	(855,931)	(99,564)	28,622	(926,873)
Furniture and Fixtures	(242,891)	(63,990)	0	(306,881)
Vehicles	(1,825,094)	(428,646)	389,553	(1,864,187)
Infrastructure:				
Pavements/Sidewalks	(13,861,195)	(1,513,164)	0	(15,374,359)
Water Mains	(5,693,516)	(334,397)	0	(6,027,913)
Traffic Signals	(741,550)	(127,299)	0	(868,849)
Storm Sewers	(5,406,468)	(340,858)	0	(5,747,326)
Culverts/Bridges	(772,385)	(19,356)	0	(791,741)
<i>Total Accumulated Depreciation</i>	<u>(30,906,218)</u>	<u>(3,045,428)</u>	<u>418,175</u>	<u>(33,533,471)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>97,157,723</u>	<u>1,367,285</u>	<u>0</u>	<u>98,525,008</u>
<b>Governmental Activities Capital Assets, Net</b>	<b><u>\$ 98,104,621</u></b>	<b><u>\$ 1,695,759</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 99,800,380</u></b>

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**(CONTINUED)**

NOTE 9: **CAPITAL ASSETS** (Continued)

\* Depreciation expense was charged to governmental functions as follows:

General Government	\$ 28,649
Security of Persons and Property:	
Police	401,483
Fire	142,296
Public Health	24,833
Basic Utilities	738,346
Community Environment	9,236
Leisure Time Activities	27,318
Transportation	<u>1,673,267</u>
Total Depreciation Expense	<u>\$ 3,045,428</u>

**Business-Type Activities**

	Balance 12/31/02 <u>as Restated</u>	<u>Additions</u>	<u>Disposals</u>	Balance 12/31/03
<b><u>Business-Type Activities</u></b>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 1,352,426	\$ 0	\$ 0	\$ 1,352,426
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,352,426</u>	<u>0</u>	<u>0</u>	<u>1,352,426</u>
<i>Capital Assets Being Depreciated</i>				
Buildings	9,980,379	0	0	9,980,379
Land Improvements	16,649,559	0	0	16,649,559
Machinery and Equipment	11,668,026	30,051	(56,965)	11,641,112
Furniture and Fixtures	18,988	0	0	18,988
Vehicles	506,871	27,237	(34,763)	499,345
Sewer Lines	<u>20,213,542</u>	<u>0</u>	<u>0</u>	<u>20,213,542</u>
<i>Total Capital Assets Being Depreciated</i>	<u>59,037,365</u>	<u>57,288</u>	<u>(91,728)</u>	<u>59,002,925</u>
Less Accumulated Depreciation:				
Buildings	(2,001,685)	(247,423)	0	(2,249,108)
Land Improvements	(4,487,222)	(526,271)	0	(5,013,493)
Machinery and Equipment	(7,960,287)	(766,087)	56,965	(8,669,409)
Furniture and Fixtures	(10,198)	(1,218)	0	(11,416)
Vehicles	(450,192)	(21,267)	31,709	(439,750)
Sewer Lines	<u>(13,481,435)</u>	<u>(737,907)</u>	<u>0</u>	<u>(14,219,342)</u>
Total Accumulated Depreciation	<u>(28,391,019)</u>	<u>(2,300,173)</u>	<u>88,674</u>	<u>(30,602,518)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>30,646,346</u>	<u>(2,242,885)</u>	<u>(3,054)</u>	<u>28,400,407</u>
<b>Total Business-Type Capital Assets, Net</b>	<u>\$ 31,998,772</u>	<u>\$ (2,242,885)</u>	<u>\$ (3,054)</u>	<u>\$ 29,752,833</u>

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

**NOTE 10: CONSTRUCTION COMMITMENTS**

As of December 31, 2003, the City had the following significant commitments with respect to capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>
SR 82 Royalton Road Intersection Rehabilitation	\$ 227,244
Storm Sewer Drainage	177,440
Abbey Road Reconstruction	25,212
Akins Road	613,152
Future Capital Improvements	66,320
Fire Capital Improvements	33,250
Wallings Road	312,043
<b>Total Capital Projects Outstanding</b>	<b><u>\$ 1,454,661</u></b>

**NOTE 11: JOINTLY GOVERNED ORGANIZATIONS**

**A. Southwest Council of Governments**

The Southwest Council of Governments helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions, and regional development. The Council's Board is comprised of one member from each of the sixteen participating entities. The Board exercises total control over the operation of the Council including budgeting, appropriating, contracting, and designating management.

Budgets are adopted by the Board. Each City's degree of control is limited to its representations on the Board.

The Council has established two subsidiary organizations: the Material Response Team (HAZMAT), which provides hazardous material protection and assistance, and the Southwest Enforcement Bureau, which provides extra assistance to cities in the form of a SWAT team.

**B. Parma Community General Hospital Association**

The Parma Community General Hospital is a not for profit adult care hospital controlled by the Parma Community General Hospital Association. The Board of Trustees of the Association is composed of mayoral appointees from the cities of North Royalton, Parma, Brooklyn, Parma Heights, Seven Hills, and Brooklyn Heights. Each city has two representatives on the Board, other than Parma, which has six. The operations, maintenance, and management of the Hospital is the exclusive charge of the Parma Community General Hospital Association. The City's degree of control is limited to its appointments to the Board of Trustees.



**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

NOTE 11: **JOINTLY GOVERNED ORGANIZATIONS** (Continued)

**B. Parma Community General Hospital Association** (Continued)

Additions to the Hospital have been financed by the issuance of hospital revenue bonds. The bonds are backed solely by the revenues of the Hospital. The cities have no responsibility for the payment of the bonds, nor does any city have any ongoing financial interest in or responsibility for the hospital.

Because there is no ongoing equity interest, there is no requirement to disclose the investment in the jointly governed organization in the general fixed assets account group. The City of North Royalton made no contributions to the Hospital during the year. The Hospital's financial statements may be obtained by contacting the Parma Community General Hospital, Parma, Ohio.

NOTE 12: **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2003, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Limits</u>	<u>Deductible</u>
<b>Arch Insurance Company</b>		
Commercial General Liability	\$ 1,000,000/\$3,000,000	No Deductible
Commercial Automobile Liability	\$ 1,000,000	No Deductible
Automobile Physical Damage	Included	\$ 500/\$500
Property Coverage	\$ 42,230,881	\$ 1,000
Electronic Data Processing	\$ 250,000	\$ 1,000
Public Officials Liability	\$ 1,000,000/\$1,000,000	\$ 10,000
Law Enforcement Liability	\$ 1,000,000/\$1,000,000	\$ 10,000
Crime Coverage	\$ 25,000	\$ 250
Umbrella Liability	\$ 10,000,000	\$ 10,000
Inland Marine Coverage	\$ 3,254,997	\$ 1,000
Blanket Position Bond	\$ 25,000	\$ 250
Employee Benefits Liability	\$ 1,000,000/\$3,000,000	\$ 1,000
Ohio Stop Gap Liability	\$ 1,000,000	None
Sewer Backup	\$ 5,000 deductible Per claimant	\$ 5,000
<b>Travelers Property Casualty</b>		
Boiler and Machinery	\$ 42,533,586	\$ 1,000

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

NOTE 12: **RISK MANAGEMENT** (Continued)

<b>American Alternative Insurance Company</b>			
Firefighters General Liability	\$ 1,000,000/\$2,000,000		None
Firefighters Errors & Omissions	\$ 1,000,000/\$2,000,000		None
<b>Peerless Insurance</b>			
Individual Public Employees Bonds	\$ 25,000/\$50,000		None
<b>American Reliable Insurance Company</b>			
Flood Insurance	\$ 896,900	\$ 500	
<b>Arch Specialty Insurance</b>			
Excess Liability Policy	\$ 10,000,000		0
<b>Carpenter Insurance</b>			
Range Insurance	\$ 1,000,000/\$2,000,000	\$	None

There has not been a significant reduction in coverage from the prior year and settled claims have not exceeded this coverage in any of the past three years.

The City pays the State Workers' Compensation System a premium based on a rate of \$100 of salaries. This rate is calculated based on accident history and administrative costs.

In July 2001, the City's health insurance changed from self-insurance to commercial insurance with monthly premiums for employee medical, dental, and eye coverage.

NOTE 13: **EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned vacation time is paid upon retirement from the City. Employees earn sick leave at different rates depending upon type of employment. Each retiree is entitled to one-half of their sick leave hours, up to a maximum of 650 hours of accumulated, unused sick leave after they have been employed with the City for ten years.

In addition, employees of the City can accumulate compensatory time for the overtime hours worked, generally based upon time and half of hourly rates. Employees are entitled to receive payments in cash for their accumulated hours upon retirement or termination from the City's payroll. The \$30,101 of matured compensated absences payable consists of written requests from employees for termination benefits by December 31, 2003.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 14: **PENSION PLAN**

**A. Ohio Public Employees Retirement System**

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of both the Traditional and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$432,125, \$404,130, and \$378,194 respectively; 92 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the member-directed plan for 2003 were \$217 made by the City and \$136 made by the plan members.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 14: **PENSION PLAN** (Continued)

**B. Ohio Police and Fire Pension Fund**

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. The OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters, respectively, were \$196,982 and \$229,752 for the year ended December 31, 2003, \$276,694 and \$272,996 for the year ended December 31, 2002, and \$240,932 and \$248,951 for the year ended December 31, 2001. The full amount has been contributed for 2002 and 2001. 70.13 percent for police and 72.25 percent for firefighters has been contributed for 2003 with the remainder being reported as a liability.

NOTE 15: **POST-EMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 15: **POST-EMPLOYMENT BENEFITS** (Continued)

A. **Ohio Public Employees Retirement System** (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$102,473. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care plan. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

**CITY OF HIGHLAND HEIGHTS, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

NOTE 15: **POST-EMPLOYMENT BENEFITS** (Continued)

**B. Ohio Police and Fire Pension Fund**

The Ohio Police and Fire Pension Fund (OP&F) provides post-retirement health care coverage to any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a two-thirds basis.

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the OP&F's Board of Trustees to provide health care coverage and states that health care costs paid from the OP&F fund shall be included in the employer's contribution rate. Health care funding and accounting are on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$185,052 for police and \$151,486 for firefighters. The OP&F's total health care expenses for the year ended December 31, 2002 (the latest information available) were \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002 was 13,527 for police and 10,396 for firefighters.

NOTE 16: **NOTES PAYABLE**

Note activity for the year ended December 31, 2003 consisted of the following:

<u>Description</u>	<u>Outstanding</u> <u>12/31/02</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>12/31/03</u>
General Obligation Notes Payable				
Industrial Park	\$ 1,200,000	\$ 1,200,000	\$ 2,400,000	\$ 0
Motor Vehicles	300,000	0	300,000	0
Street Improvement	<u>0</u>	<u>700,000</u>	<u>0</u>	<u>700,000</u>
Total	<u>\$ 1,500,000</u>	<u>\$ 1,900,000</u>	<u>\$ 2,700,000</u>	<u>\$ 700,000</u>

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

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NOTE 16: **NOTES PAYABLE** (Continued)

Proceeds from the notes were used for street improvements, motorized vehicles, and equipment purchases.

All notes are backed by the full faith and credit of the City. In governmental fund financial statements, the note liability is reflected in the fund which received the proceeds.

By Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. There are also limitations on the number of times notes can be renewed. All notes outstanding at year end are bond anticipation notes. The notes will be refinanced until the City determines it to be advantageous to issue bonds.

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

**NOTE 17: LONG-TERM DEBT**

Changes in long-term obligations of the City during 2003 were as follows:

	<u>Balance</u> <u>12/31/2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2003</u>	<u>Due Within</u> <u>One Year</u>
<b><u>Governmental Activities</u></b>					
<i>General Obligations Bonds</i>					
1991 6.75% \$490,000 Real Estate, due 12/1/11	\$ 296,000	\$ 0	\$ 23,000	\$ 273,000	\$ 28,000
1993 5.50% \$12,900 Edgerton Road Waterline, due 12/1/13	8,222	0	747	7,475	747
1995 6.10% \$209,250 Wallings Road Water and Sewer, due 12/1/20	144,853	0	8,914	135,939	8,914
1998 4.1% \$2,417,000 Police Facility Refunding Bond, due 12/1/11	1,822,500	0	171,000	1,651,500	175,000
1998 4.1% \$22,000 James/Julia/Royalwood Road, due 12/1/18	19,725	0	700	19,025	750
<i>Total General Obligation Bonds</i>	<u>2,291,300</u>	<u>0</u>	<u>204,361</u>	<u>2,086,939</u>	<u>213,411</u>
<i>Special Assessment Bonds</i>					
1991 6.75% \$40,000 Cady Road, due 12/1/11	24,000	0	2,000	22,000	2,000
1993 5.50% \$73,100 Edgerton Road Waterline, due 12/1/13	46,780	0	4,252	42,528	4,252
1995 6.10% \$255,750 Wallings Road Water and Sewer, due 12/1/20	180,148	0	11,086	169,062	11,086
1998 4.1% \$423,000 James/Julia/Royalwood Sewer, due 12/1/18	379,775	0	13,300	366,475	14,250
2003 4.60% \$1,120,000 Industrial Park Phase II, due 2023	0	1,120,000	0	1,120,000	35,000
<i>Total Special Assessment Bonds</i>	<u>630,703</u>	<u>1,120,000</u>	<u>30,638</u>	<u>1,720,065</u>	<u>66,588</u>
<i>Other Liabilities</i>					
Capital Lease Obligation - 1999 \$148,006 Packer Truck, due 12/1/03	41,263	0	41,263	0	0
Capital Lease Obligation - 2002 Pumper Fire Truck, due 2006	187,242	0	44,225	143,017	45,906
1968 \$158,953 Police and Fire Pension, due 5/1/35	139,241	0	2,052	137,189	2,140
Compensated Absences	2,092,995	989,979	0	3,082,974	960,161
<i>Total Other Liabilities</i>	<u>2,460,741</u>	<u>989,979</u>	<u>87,540</u>	<u>3,363,180</u>	<u>1,008,207</u>
<b>Total Governmental Activities</b>	<u>\$ 5,382,744</u>	<u>\$ 2,109,979</u>	<u>\$ 322,539</u>	<u>\$ 7,170,184</u>	<u>\$ 1,288,206</u>
<b><u>Business-Type Activities:</u></b>					
<i>Ohio Water Development Authority Loans</i>					
1987 \$7,467,943 7.73% Wastewater Treatment Plant A Improvements, due 2012	\$ 4,480,519	\$ 0	\$ 337,182	\$ 4,143,337	\$ 363,246
1991 5.20% \$4,138,000 Wastewater Treatment Plant B Renovations, due 7/1/11	2,279,840	0	219,526	2,060,314	231,090
1995 4.56% \$11,924,233 Wastewater Treatment Plant A Construction Loan, due 1/1/17	10,475,665	0	549,066	9,926,599	574,389
1996 4.04% \$5,809,719 Sludge Compost Facility, due 1/1/18	5,160,627	0	256,184	4,904,443	266,638
<i>Total OWDA Loans</i>	<u>22,396,651</u>	<u>0</u>	<u>1,361,958</u>	<u>21,034,693</u>	<u>1,435,363</u>
<i>Ohio Public Works Loan</i>					
1998 0% \$1,196,285 Sludge Compost Facility, due 1/1/18	897,214	0	59,814	837,400	59,814
<i>Compensated Absences</i>	<u>187,551</u>	<u>68,316</u>	<u>0</u>	<u>255,867</u>	<u>79,687</u>
<b>Total Business-Type Activities</b>	<u>\$ 23,481,416</u>	<u>\$ 68,316</u>	<u>\$ 1,421,772</u>	<u>\$ 22,127,960</u>	<u>\$ 1,574,864</u>



**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

NOTE 17: **LONG-TERM DEBT** (Continued)

OWDA and OPWC loans will be paid from sewer user charges. General obligation bonds will be paid from the debt service fund. Special assessment bonds will be paid from the proceeds of special assessments levied against benefitted property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. See Note 18 for further detail on capital leases. The police and fire pension liability will be paid from taxes received in the police and fire pension special revenue funds. Compensated absences will be paid from the fund from which the employees' salaries are paid.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003 are as follows:

Year	General Obligation Bonds		Special Assessments		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 213,411	\$ 100,459	\$ 66,588	\$ 85,582	\$ 1,435,363	\$ 1,035,856
2005	222,936	90,691	67,063	82,359	1,512,986	960,885
2006	236,461	80,409	73,539	79,096	1,595,087	881,640
2007	245,986	69,335	74,014	75,497	1,681,942	797,863
2008	260,036	57,741	74,964	71,854	1,773,844	709,276
2009-2013	851,362	106,222	421,645	299,854	8,512,829	2,096,269
2014-2018	43,375	12,848	530,625	189,320	4,522,642	387,507
2019-2023	13,372	1,266	411,627	59,277	0	0
2024-2028	0	0	0	0	0	0
2029-2033	0	0	0	0	0	0
2034-2035	0	0	0	0	0	0
<b>Totals</b>	<b><u>\$2,086,939</u></b>	<b><u>\$ 518,971</u></b>	<b><u>\$ 1,720,065</u></b>	<b><u>\$ 942,839</u></b>	<b><u>\$21,034,693</u></b>	<b><u>\$ 6,869,296</u></b>

Year	Ohio				
	Public Works	Police and Fire Pension		Totals	
	Principal	Principal	Interest	Principal	Interest
2004	\$ 59,814	\$ 2,140	\$ 5,808	\$ 1,777,316	\$ 1,227,705
2005	59,814	2,232	5,716	1,865,031	1,139,651
2006	59,814	2,327	5,620	1,967,228	1,046,765
2007	59,814	2,427	5,520	2,064,183	948,215
2008	59,814	2,532	5,416	2,171,190	844,287
2009-2013	299,071	14,385	25,353	10,099,292	2,527,698
2014-2018	239,259	17,751	21,987	5,353,652	611,662
2019-2023	0	21,906	17,832	446,905	78,375
2024-2028	0	27,034	12,706	27,034	12,706
2029-2033	0	33,358	6,380	33,358	6,380
2034-2035	0	11,097	467	11,097	467
<b>Totals</b>	<b><u>\$ 837,400</u></b>	<b><u>\$ 137,189</u></b>	<b><u>\$ 112,805</u></b>	<b><u>\$25,816,286</u></b>	<b><u>\$ 8,443,911</u></b>

**CITY OF NORTH ROYALTON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(CONTINUED)**

**NOTE 18: CAPITAL LEASES**

In 1999, the City entered into a capital lease agreement for a 1999 packer truck which required monthly installments of principal and interest of \$3,580 through December, 2003. In 2002, the City also entered into a capital lease agreement for a 2002 pumper fire truck which requires monthly installments of principal and interest of \$51,340 through December 2006. The 2002 pumper truck lease is a long-term agreement which meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*.

The future minimum lease payments required under capital leases are as follows:

	<u>2002 Pumper Fire Truck</u>
Year ending December 31:	
2004	\$ 51,340
2005	51,340
2006	<u>51,340</u>
Minimum Lease Payments	154,020
Less: Amount Representing Interest	<u>(11,003)</u>
Present Value of Net Lease Payments	<u>\$ 143,017</u>

**NOTE 19: CONTINGENCIES AND COMMITMENTS**

The City is party to various legal proceedings. City management is of the opinion that ultimate settlement of such claims not covered by insurance will not result in a material adverse effect on the City's financial position.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being allowable expenditures under federal and state regulations. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, will be immaterial.

**NOTE 20: SUBSEQUENT EVENT**

On January 21, 2004, the City issued \$2,000,000 Fire Station Improvement General Obligation Notes at an interest rate of 1.35 percent per year maturing on January 20, 2005 for the purpose of addition and renovation of the existing fire station.

**JAMES G. ZUPKA, C.P.A., INC.**  
*Certified Public Accountants*  
*5240 East 98<sup>th</sup> Street*  
*Garfield Hts., Ohio 44125*

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Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**REPORT ON COMPLIANCE AND INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

Honorable Mayor, Finance Director, and  
Members of City Council  
City of North Royalton, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of North Royalton, Ohio (the City) as of and for the year ended December 31, 2003, which collectively comprise the City of North Royalton, Ohio's basic financial statements and have issued our report thereon dated May 27, 2004. The City adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as of January 1, 2003. This resulted in a change to the City's method of accounting for certain nonexchange revenues, capital assets, long-term liabilities and changes in the format and content of the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City of North Royalton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. The results of our tests disclosed immaterial instances of noncompliance that are required to be reported under *Government Auditing Standards* which we have reported to the management of the City of North Royalton, Ohio, in a separate letter dated May 27, 2004.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of North Royalton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions, involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below:

### **Soccer Club - Bank Reconciliations, Accounting Systems, and Reports**

#### **Condition and Criteria**

We noted that during the fourth quarter of the year, the Treasurer's computer system for the Soccer Club failed and, as a result, all accounting data files were lost, consequently, only hard copies of the reports existed through this time period. The system should have been backed up at least weekly, properly labeled, and properly stored in a safe place. Due to this problem, system generated reports were not done timely which included bank reconciliations, cash flow reports, and itemized categories reports. The Treasurer then needed to prepare these reports through the end of the year using an alternative spreadsheet program.

#### **Effect**

We were unable to determine if all revenues and expenditures were correctly recorded. Not reconciling the bank account and preparing the monthly reports on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time consuming to reconcile accounts while transactions are current.

#### **Cause**

There are no procedures for data backup.

#### **Recommendation**

We recommend that computer files be backed up at least weekly, be properly labeled, and be stored in a fireproof safe to ensure safe storage of computer information.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the City of North Royalton, Ohio in a separate letter dated May 27, 2004.

This report is intended for the information and use of the audit committee, members of City Council, and management and is not intended to be and should not be used by anyone other than these specified parties.

James G. Zupka, CPA, Inc.  
Certified Public Accountants

May 27, 2004

**CITY OF NORTH ROYALTON  
STATUS OF PRIOR CITATIONS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

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The prior audit report, as of December 21, 2002, included one reportable condition and management letter recommendations. These have been corrected, repeated, or procedures instituted to prevent occurrences in this audit report.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**CITY OF NORTH ROYALTON**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 14, 2004**